

PRESQUE ISLE DISTRICT LIBRARY

**Financial Statements
For the Year Ended December 31, 2005**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name PRESQUE ISLE DISTRICT LIBRARY	County PRESQUE ISLE
Fiscal Year End 12/31/05	Opinion Date 6/21/06	Date Audit Report Submitted to State 6/27/06	

We affirm that:

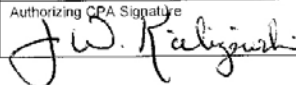
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) J W KIELISZEWSKI CPA PC		Telephone Number 989-734-4844	
Street Address 476 NORTH THIRD STREET		City ROGERS CITY	State MI
Authorizing CPA Signature 		Printed Name J W KIELISZEWSKI	License Number 1101010056

**PRESQUE ISLE DISTRICT LIBRARY
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Presque Isle District Library
Rogers City, Michigan

I have audited the accompanying financial statements of the Presque Isle District Library, State of Michigan (the "Library") as of and for the year ended December 31, 2005, which comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. My responsibility is to express an opinion on these financial statements based on my audit.

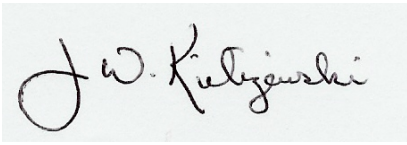
I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Library as of December 31, 2005 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Library's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and other supplemental information have not been subjected to the

auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

A handwritten signature in dark ink, reading "J. W. Kuligowski". The signature is written in a cursive style with a large initial "J" and "W".

Rogers City, Michigan
June 21, 2006

PRESQUE ISLE DISTRICT LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS

To Auditor: June 21, 2006

Using this Annual Report:

This annual report consists of three parts, including *Management's Discussion and Analysis* ("MD&A", the current section), the *Basic Financial Statements*, and *Required Supplementary Information*.

- The financial position of the Library is comparative with the prior year's financial positions.
- An independent auditor audits the Library each fiscal year; thus, the financial portion of this report will be independent, with additional comments provided by management in this section.

The Library as a Whole:

This section of the MD&A will include the elements such as: a brief discussion of the basic financial statements; analysis of the Library's overall financial position and results of operations; analysis of significant budget variations; and discussion of currently known facts, decisions, or conditions affecting the Library.

- The Library has 3 branches in addition to the administrative location and can be classified as moderate in size.
- Circulation continues to increase steadily and technology has been updated regularly to meet the need. Two additional computers were added to the Library system, including an internet computer at the Posen location and a children's computer at the Rogers City administrative location. Computer classes are held on a regular basis throughout the year at all locations and have been attended well, thus the increase in computers at the Posen location. The children's computer was added to give children their own space away from the adult area.
- Revenue is obtained through state aid, penal fines, local government revenues, interest revenues, local donations and bequests, material fines and lost book charges and government and/or private grants.
- Local government revenues in the form of a .75 assessed mill provides 74% of the library revenues compared to 60% from the previous year. This 60% is deflated in part due to the majority of a large donation (around \$90,000) given during 2004. Public and business support for the Library continues to improve and the Library has increased its outreach to, and collaboration with, the communities and organizations within the district.
- Direct state aid was not decreased in 2005 as it was in 2004, which was helpful; however, libraries have been informed there will be significant cuts in 2006.
- Adding to this, penal fines were down almost \$10,000 from 2004, leaving an overall decrease in state aid of more than 10%.

- Generally, income was down from the previous year due to the sale of some property in 2004 and the balloon payment of that amount. Also, only \$5,000 of the \$90,000 donation came in 2005 as opposed to around \$85,000 in 2004. There were again no layoffs necessary, and some hours were in fact increased.
- Salary expense was up almost 14% due to increased hours at one of the locations and additional help hired for the summer season. Training for the software system was still occurring, and one additional person was hired.
- Net Income shows a drop of more than 97%, which is not an accurate picture and can be explained by the large donation in 2004, loss of revenue due to a drop in interest rates, a significant drop in penal fines, etc. It should be noted that the Library is still in good financial condition as local revenue and grant monies continue to increase; also, a significant amount of money has been retained from a large gift of more than \$700,000 a few years ago.
- There is currently no long-term debt.
- The Library remains in excellent financial shape though the tremendous increase in utilities and thus other expenses, plus the decrease in income, has made it somewhat of a challenge to continue operating at the same level of service. Programming continues thanks to local support and grants. Local donations overall remain strong and local businesses in fact have increased their donations in 2005.

Individual Fund Analysis:

Checking Account

- Shows a balance of \$1,790.05. Cash flow was down considerably from the previous year in part because money was in CDs that were not cashed until the following year. There was a slight delay in paying some bills as a result of this, unlike the previous year.

Johnson Bequest Fund

- A significant change in this account is due to a slower growth rate due to a decrease in interest income and a considerable amount was used to pay off a loan in order to come into compliance with current laws.
- This fund is the result of a bequest made by a local resident who left a considerable sum of money to the library with restricted usage. No operational expenses can be paid with this money. It has been and can be used for education, books or other materials, shelving, furniture and equipment, and building or building improvements.
- Year-end balance was \$198,454.30.

Henry & Margaret Hoffman Fund

- This fund was created as the result of a bequest made by a local resident who left close to \$90,000 to the Library.
- The year-end balance of this account is \$90,589.43, which has been increased due to earned interest.

Accounts Receivable

- Only a small amount of outstanding amounts due the Library. Ending balance of \$343.81. No significant changes.

Petty Cash

- This fund is \$50 at the year-end, as it should be. All expenses were accounted for by receipt (see audit). Mostly used for mailing packages or small emergency purchases. No change.

Liabilities & Equity

- Current liabilities show significant changes from previous year due to discharging of a significant loan. Fixed assets remain virtually the same.
- There are currently no long-term liabilities.

Respectfully submitted,

Janis K. Stevenson, Director

PRESQUE ISLE DISTRICT LIBRARY
Governmental Funds
Balance Sheet/Statement of Net Assets
For the Calendar Year Ended December 31, 2005

	General Fund		
	Modified	Adjustments	Statement of
	<u>Accrual Basis</u>	<u>(Note 7)</u>	<u>Net Assets</u>
Assets			
Cash and investments (Notes 2 & 4)	\$ 306,869	\$ -	\$ 306,869
Accounts receivable	344	-	344
Fixed assets (Notes 2 & 5)	<u>-</u>	<u>949,776</u>	<u>949,776</u>
Total assets	<u>\$ 307,213</u>	<u>\$ 949,776</u>	<u>\$ 1,256,989</u>
Liabilities			
Accounts payable and accrued liabilities	<u>2,090</u>	<u>-</u>	<u>2,090</u>
Total liabilities	<u>2,090</u>	<u>-</u>	<u>2,090</u>
Fund Balance / Net Assets			
Fund Balance - Unreserved			
Designated for capital improvement	198,454	198,454	-
Undesignated	<u>106,669</u>	<u>106,669</u>	<u>-</u>
Total fund balance	<u>305,123</u>	<u>305,123</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 307,213</u>		
Net Assets:			
Invested in capital assets, net of related debt		949,776	949,776
Restricted for donor-restricted purpose		198,454	198,454
Unrestricted		<u>106,669</u>	<u>106,669</u>
Total net assets		<u>\$ 1,254,899</u>	<u>\$ 1,254,899</u>

See Notes to Financial Statements.

PRESQUE ISLE DISTRICT LIBRARY
Statement of Governmental Revenue, Expenditures and Changes in Fund Balance /
Statement of Activities
December 31, 2005

	General Fund Modified <u>Accrual Basis</u>	Adjustments (Note 7)	Statement of <u>Activities</u>
Revenue			
Property taxes	\$ 365,856	\$ -	\$ 365,856
State aid	13,915	-	13,915
Penal fines	48,945	-	48,945
Interest on investments	14,824	-	14,824
Contributions and grants	33,987	-	33,987
Library fines and fees	5,611	-	5,611
Other miscellaneous	<u>3,843</u>	<u>-</u>	<u>3,843</u>
Total Revenue	486,981	-	486,981
Expenditures			
Salaries and fringe benefits	283,434	-	283,434
Supplies	60,152	-	60,152
Library books and materials	45,709	(45,709)	-
Professional and contractual services	23,169	-	23,169
Conferences, workshops, and travel	6,944	-	6,944
Insurance and bonds	5,620	-	5,620
Utilities	24,486	-	24,486
Rent	21,399	-	21,399
Building repair and maintenance	10,946	-	10,946
Capital outlay	11,610	(11,610)	-
Depreciation	-	136,376	136,376
Debt service:			
Principal	220,428	(220,428)	-
Interest	<u>2,336</u>	<u>(634)</u>	<u>1,702</u>
Total Expenditures	<u>716,233</u>	<u>(142,005)</u>	<u>574,228</u>
Excess of Revenue Over Expenditures/ Change in Net Assets	(229,252)	142,005	(87,247)
Fund Balance/Net Assets - Beginning of year	<u>534,375</u>	<u>807,771</u>	<u>1,342,146</u>
Fund Balance/Net Assets - End of year	<u>\$ 305,123</u>	<u>\$ 949,776</u>	<u>\$ 1,254,899</u>

See Notes to Financial Statements.

PRESQUE ISLE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 – REPORTING ENTITY AND BASIS OF PRESENTATION

Definition of the Reporting Entity

The Presque Isle District Library (the “Library”) was established May 19, 1992 pursuant to Act No. 24 of the Public Acts of 1989 (MCL 397.171), known as “The District Library Establishment Act.”

The district of the Library consists of the entire geographic area of Presque Isle County. The Library provides library services to the residents of the district and enters into contracts to provide library services to municipalities outside the district, such as Forest and Waverly Townships in Cheboygan County, Michigan.

The Library is governed by a Board, which consists of seven (7) members. The Mayor of the City of Onaway, with the approval of City Council, appoints one board member from the Onaway area for a term of four (4) years. The Presque Isle Township Supervisor, with the approval of the Township Board, appoints one board member from the Grand Lake area for a term of four (4) years. The Posen Township Supervisor, with the approval of the Township Board, appoints one board member from the Posen area for a term of four (4) years. The Presque Isle County Board of Commissioners appoints three (3) board members for terms of four (4) years each, two of whom represent the areas of the county without a branch library and one represents the Rogers City area. The Mayor of the City of Rogers City, with the approval of City Council, appoints one board member from the City of Rogers City for a term of four (4) years.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Library. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, the Library has no component units.

Basis of Presentation

The financial statements present the fund financial statement on a modified accrual basis with an adjustment to present the statement of net assets and the statement of activities on a full accrual basis.

Fund Financial Statements

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Library, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds, which are maintained in accordance with the activities or objectives specified.

The financial activities of the Library are recorded in one fund as follows:

Governmental Fund:

General Fund: This fund accounts for all financial resources except those provided for in another fund. Revenues are derived primarily from property taxes and penal fines. This fund includes the general operating expenses of the Library.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

GASB No. 34

Effective January 1, 2004, the Library implemented the provisions of GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management’s Discussion on Analysis – for State and Local Governments*. Certain significant changes in the statements include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Library’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library’s activities.

These and other changes are reflected in the accompanying financial statements (including Notes to Financial Statements).

Measurement Focus / Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made,

regardless of the measurement focus applied. The accounting policies of the Library conform to generally accepted accounting principles as applicable to governmental units.

Governmental Fund – The Governmental Fund Type (General Fund) uses a financial resources measurement focus and is accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due, and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturity of three months or less when acquired.

Investments

Investments are stated at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institution, to the interest bearing account.

Current property taxes

Properties are assessed as of December 31 and the related property taxes become a lien on December 1. These taxes are due February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The December 2004 State equalized valuation of the Library totaled \$790,671,375. The State taxable valuation of the Library totaled \$507,033,510 on which ad valorem taxes levied consisted of .7124 mills raising \$361,116 for operating purposes.

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$1,00 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40 years
Furniture and Equipment	5-15 years
Building Improvements	30 years
Library books and materials	3-15 years

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The budget of the General Fund is legally adopted through a Board resolution prior to the beginning of the budgetary year. There were three amendments to the original budget during the year. The encumbrance method of budgeting is not used. Any unexpended appropriations lapse at year-end.

Formal budgetary integration is employed as a management control device for the General Fund. Budgets are prepared on a modified accrual basis, which is in conformity with generally accepted accounting principles.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act (PA 2 of 1968, as amended; MCL 141.421 et seq.) provides that expenditures shall not be incurred in excess of the amount appropriated. The Library's budgeted and actual expenditures for the funds budgeted have been shown on a functional basis.

The Library incurred the following an excess of expenditures over budgeted funds appropriated for the current year:

<u>Budget Item</u>	<u>Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund			
General Government			
Debt service - principal	\$ 2,109	\$220,428	\$(218,319)

Accumulated Fund Deficits

The Library had no funds with an accumulated fund balance/retained earnings deficit at December 31, 2005.

NOTE 4 – CASH AND CASH INVESTMENTS

Deposits are carried at cost. Deposits are in three financial institutions in the name of the Library. The Library's investment policy authorizes the Library Treasurer to invest in the following types of securities:

- A. Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- B. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but the Library shall not deposit or invest funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- C. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686.65 State / 890.15 ISC 9a1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- D. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 2129.111 to 129.118; or
- E. The investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

At year-end, the carrying amount of the Library's deposits were \$306,819 and the respective bank balance totaled \$313,756, of which \$215,252 was covered by Federal Depository Insurance. The difference between the carrying amount of the Library's deposits and the respective bank balance represents checks written during the year but not yet presented for payment. The Library also had \$50 in imprest cash at year-end. All of the Library's deposits were made in accordance with the investment policy.

NOTE 5 – CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance <u>1/1/2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2006</u>
Land and Land improvement: \$	14,573	\$ -	\$ -	\$ 14,573
Building	425,000	-	-	425,000
Building Improvements	104,202	-	-	104,202
Computers	68,866	3,314	-	72,180
Furniture and Equipment	112,749	8,296	-	121,045
Library books and Materials	<u>806,153</u>	<u>45,709</u>	<u>17,037</u>	<u>834,825</u>
Total	1,531,543	57,319	17,037	1,571,825
Accumulated Depreciation	<u>(502,710)</u>	<u>(136,376)</u>	<u>(17,037)</u>	<u>(622,049)</u>
Net Book Value	<u>\$1,028,833</u>	<u>\$ (79,057)</u>	<u>\$ -</u>	<u>\$ 949,776</u>

NOTE 6 – RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well s medical and worker's compensation benefits provided to employees.

The Library's coverage on general liability is \$1,200,000, with a liability limit of \$1,200,000. The Library's coverage on books, audio, video, software and equipment is a blanket replacement cost policy for all locations with a maximum coverage of \$2,400,000 with no individual location limits after a \$1,000 deductible per occurrence. The Library's coverage on public officials is covered by the appointing municipal entity and is not duplicated by the Library. Real estate is insured for replacement value with a current maximum value of \$544,000 for a complete loss. Any liability for losses which exceed these amounts would remain with the Library.

NOTE 7 – RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from the net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance.

The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in assets:

Total Fund Balance - Modified Accrual Basis	\$ 305,123
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Amounts reported in the Statement of Net
Assets are different because:

Capital assets are not financial resources, and are not reported in the funds	<u>949,776</u>
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Net Assets of General Fund - Full Accrual Basis	<u><u>\$1,254,899</u></u>
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Net Change in Fund Balances - Modified Accrual Basis	\$ (229,252)
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Amounts reported in the Statement of Activities
are different because:

Capital outlays are reported as expenditures in
Statement of Revenue, Expenditures and Changes
in Fund Balance; in the Statement of Activities,
these costs are allocated over their estimated
useful lives as Depreciation:

Library books and materials	45,709
Capital outlay	11,610
Depreciation	(136,376)
Long-term debt payment	<u>221,062</u>

Change in Net Assets of General Fund - Full Accrual Basis	<u><u>\$ (87,247)</u></u>
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NOTE 8 – COMPENSATED ABSENCES

There are no compensated absences provided by the Library, which would require disclosure under GASB Codification §C-60.

NOTE 9 – PENSION PLAN

The Library does not provide a pension plan.

**PRESQUE ISLE DISTRICT LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
For the Calendar Year ended December 31, 2005**

	Original <u>Budget</u>	<u>Budget</u>	Actual <u>Balances</u>	Variance Favorable (Unfavorable)
Revenue				
Property taxes	\$ 361,000	\$ 365,660	\$ 365,856	\$ 196
State aid	13,900	13,915	13,915	-
Penal fines	50,000	48,945	48,945	-
Interest on investments	15,000	12,774	14,824	2,050
Contributions and donations	4,250	28,418	33,987	5,569
Library fines and fees	4,850	5,611	5,611	-
Other miscellaneous	<u>27,400</u>	<u>46,289</u>	<u>3,843</u>	<u>(42,446)</u>
Total Revenue	476,400	521,612	486,981	(34,631)
Expenditures				
Salaries and fringe benefits	264,900	283,434	283,434	-
Supplies	50,850	83,445	60,152	23,293
Library books and materials	49,500	45,709	45,709	-
Professional and contractual services	7,300	23,169	23,169	-
Conferences, workshops, and travel	5,500	7,044	6,944	100
Insurance and bonds	5,500	5,620	5,620	-
Utilities	26,900	24,791	24,486	305
Rent	21,150	21,399	21,399	-
Building repair and maintenance	15,000	10,946	10,946	-
Capital outlay	7,800	11,610	11,610	-
Debt service:				
Principal	12,000	2,109	220,428	(218,319)
Interest	<u>10,000</u>	<u>2,336</u>	<u>2,336</u>	<u>-</u>
Total Expenditures	<u>476,400</u>	<u>521,612</u>	<u>716,233</u>	<u>(194,621)</u>
Excess of Revenue Over Expenditures/ Change in Net Assets	-	-	(229,252)	(229,252)
Fund Balance/Net Assets - Beginning of year	<u>534,375</u>	<u>534,375</u>	<u>534,375</u>	<u>-</u>
Fund Balance/Net Assets - End of year	<u>\$ 534,375</u>	<u>\$ 534,375</u>	<u>\$ 305,123</u>	<u>\$ (229,252)</u>

June 27, 2006

Honorable Board Members
Presque Isle District Library
Rogers City, Michigan

LETTER OF COMENTS AND RECOMMENDATIONS

I wish to express my appreciation for the fine cooperation extended to me during the audit of your Financial Statements.

As required, I have submitted online to the State Treasurer's office a PDL formatted copy of the audited Financial Statements, which included this Letter of Comments and Recommendations as well as the Auditing Procedures Report. The remaining copies of the audited Financial Statements are herewith submitted. At one of your next regular Board Meetings the audited Financial Statements should be formally accepted and the copy marked for this purpose made a part of your Minute Book. I will plan to attend that meeting and be prepared to make a brief presentation on the audit.

We conducted our audit of the Financial Statements of the Library in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to

the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in my opinion.”

In the audit process, I gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. My understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Prior to this audit I obtained written permission from officials to disclose immediately any findings of suspected fraud and/or embezzlement directly to the Deputy State Treasurer. During the course of the audit I noted no instances of suspected fraud and/or embezzlement.

Auditing standards call for us to inform you of other significant issues such as, but not limited to: accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management’s current judgments; significant audit adjustments that may not have been detected except through the auditing procedures we performed; disagreements with management regarding the scope of the audit or application of accounting principles; consultation with other accountants; major issues discussed with management prior to retention; and difficulties encountered in performing the audit. We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

The following comments and recommendations are submitted in the interest of improved accounting procedures, closer compliance with the various state and federal regulations and requirements.

Comments and Recommendations Pertaining to the 2005-06 Audit Only

1. General Ledger Improvements

The Library maintains a computerized combined general ledger accounting system for all activities and does a good job of reviewing expenditures for budgetary purposes. Based on the requirements of the District Library Establishment Act, however, the Library is required to follow the accounting rules for Michigan governments, namely Fund Accounting utilizing the State Uniform Chart of Accounts. Fund Accounting groups all accounting and reporting into various funds based on specific activities and objectives while utilizing the State Chart of Accounts. In performing the audit, we currently separate the general ledger into the appropriate funds. As always, the cost of these functions in both time and money needs to be considered by the Board.

Recommendation

I have contacted Pontem Software, the same vendor that provides software to the County of Presque Isle for their tax collection system, and believe a solution may be present. The representative indicated that the general ledger module's first year cost is \$1,037, with annual maintenance cost of \$239. This would provide a good "after the fact" general ledger system compliant with the State of Michigan's Chart of Accounts. An additional module for the accounts payable system would be the only add-on worth considering at this time. Its additional cost is \$829 for the first year with annual maintenance fees of \$191. With these products you would get unlimited telephone support. I have recommended that this software be presented at one of your tax software training sessions. I believe the product will offer some solutions to the Library at a price I feel is reasonable based on my annual software costs. Pontem can be contacted at (888) 742-2378.

2. Internal Controls

During the course of my audit of the basic financial statements of the Library, I noted certain matters involving the internal control structure and its operation that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements, namely:

The relatively small number of people involved in the accounting functions of the Library makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening

internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties, and we note this item here only to maintain the Board's awareness of this limitation in their internal controls.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.

The foregoing is a communication required by Statement of Auditing Standards No. 60.

3. **Invoice Review Procedures**

The processes of receiving materials ordered, checking pricing, approving invoices for payment and assigning account distribution are currently performed by various individuals as work assignments allow. We noted no discrepancies in any of our testing except the documentation of what account distribution is assigned to the expense, and signature evidence of work performed.

Recommendation

It is suggested that a n invoice review form be developed or an audit stamp be ordered that would allow for the signature or initialing of parts of the review process. These should include receiving verification, math accuracy of the invoice, pricing approval, overall approval to pay, and account distribution (utilizing the Uniform Chart of Accounts) assignment of the total components of the invoice, allowing for multiple expense splits.

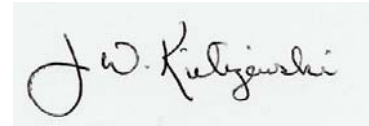
Acceptance by Board of Audited Financial Statements

It is recommended that these Audited Financial Statements and Recommendations be accepted by the Board by a motion similar to the following:

“Moved by _____ and seconded by _____,
that the 2005 Audited Financial Statements be accepted as presented and that,
insofar as possible, the recommendations made by our auditor in his Letter of
Comments and Recommendations be followed.”

I would like to take this opportunity to thank the Library staff for their help and consideration in performing this audit. I will be available for review of these comments and recommendations as well as other matters.

Respectfully submitted,

A handwritten signature in black ink, reading "J.W. Kieliszewski". The signature is written in a cursive style with a large initial "J" and "W".

J.W. Kieliszewski